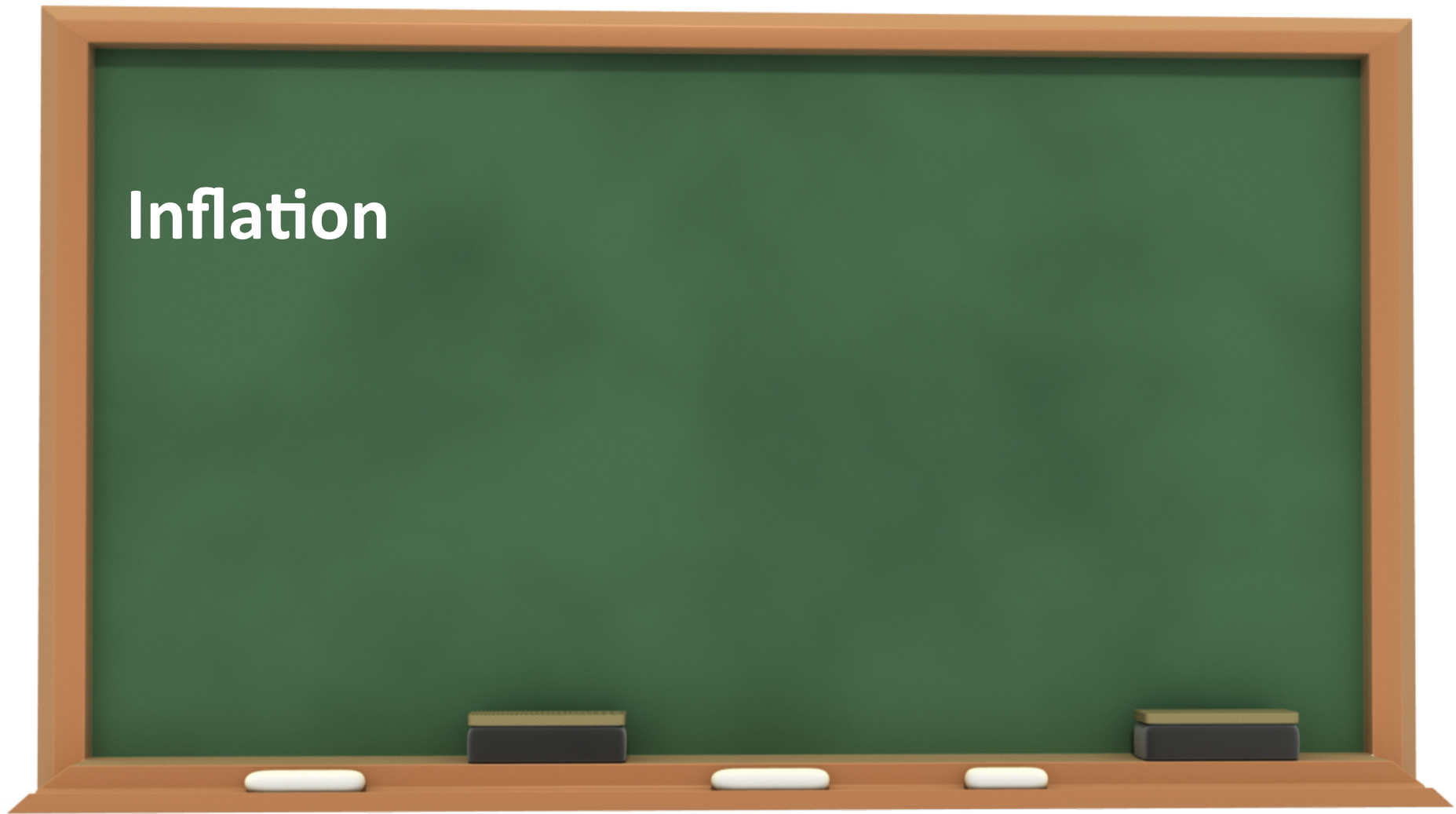


• DO NOW!

- How did our simulation demonstrate inflation?

Inflation



• Inflation

- Def. A general rise in prices due to a decrease in the value of money.
 - Ex. 5 years ago, a can of soda from a machine cost \$.75. Today it is \$1.00 or more.
- Inflation is natural and even necessary. But when inflation increases too quickly, it has dangerous effects on the economy. (i.e. people cannot afford to purchase needs and wants)

•Measuring Inflation

• Consumer Price Index or CPI

- A list of goods and services that are commonly bought by consumers

• The formula for CPI:

$$\frac{[(\text{CPI in current year} - \text{CPI in previous year})]}{[\text{CPI in previous year}]} \times 100$$

- It is computed by the Bureau of Labor Statistics.

• Inflation

From 1972 to 1982, the consumer price index rose from 125.3 to 289.1

By what percentage did the cost of living rise?

• Inflation

Percent increase in CPI =

$$\frac{[(289.1 - 125.3)]}{[125.3]} \times 100 = 130.7\%$$

• Inflation

The CPI rose from 114.3 in 2013 to 126.1 in 2020.

By what percent did the CPI rise?

• Inflation

Percent increase in CPI =

$$\frac{[(126.1 - 114.3)]}{[114.3]} \times 100 = 10.3\%$$

- **Checkpoint**

- How does inflation affect a person's income and lifestyle?

• Patterns of Inflation

Deflation

- General level of prices are decreasing, the economy is experiencing deflation
 - Ex. Around the world from 1929 – 1933
 - In Japan from 1998-2005
 - Fear that it will happen again 2008 - ?

•Patterns of Inflation

• Disinflation

- When prices are rising but the rate of increase is slowing

- Ex: price of swimsuits is rises in the spring, in the fall though the price may be rising but at a slower rate.

•Patterns of Inflation

• Hyperinflation

- Prices are rising so rapidly that they are out of control.
- EX: Germany prices became outrages with inflation rates increasing 300% in the years following WW1.

- **Checkpoint**

- How is disinflation different from inflation?

•Causes of Inflation

• Demand-Pull Inflation:

- When the demand for products exceeds the supply, prices rise. Too many dollars, too few goods.
- This is a natural result of expansion of the Business Cycle.

• Causes of Inflation

• Cost-Push Inflation:

- When scarcity causes the cost of production to increase, prices rise.
- Ex. Gas prices increase the cost of fuel for airplanes, so ticket prices increase

• Quantity Theory:

- When too much money in the economy leads to inflation.
- Ex. The 1920's money was just printed.

•Effects of Inflation

1. **Price of goods rise** (ex. Can of soda)
2. **Money buys less**
3. **Standard of living declines** (ex. More and more households have two people working to make ends meet)
4. **People who save money are hurt** (if inflation is higher than investment returns, losing money!)

•Effects of Inflation

- Inflation hits people with fixed incomes (people with a set monthly income that will not increase) **the hardest**.
 - Ex. Retirees and disabled people. Their social security checks, pensions, or investments are limited and do not increase even when prices increase.

•Effects of Inflation

• Employment

- Demand – pull inflation: creates more jobs
- Cost push Inflation: loss of jobs

•Checkpoint

- Explain how rising prices and falling prices affect employment rates.

- **DO NOW!**

- What does it mean to be unemployed?

•Employment/Unemployment

